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USDOC FOR DAS LEVINE AND 4420/ITA/MAC/CEA/MCQUEEN
STATE PASS USTR
USTR FOR STRATFORD/WINTER/MCCARTIN/GRIER
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TAGS: ETRD EINV ECPS PGOV ASEC WTRO CH
SUBJECT: 3G: NO LICENCES IN SIGHT BUT PLENTY OF ENTHUSIASM

11. (SBU) Summary: A recent conference in Beijing brought together an enthusiastic international group of academics and software and hardware vendors who agree that China is ready for 3G, although it is still unclear what the "killer application" will be. The key challenge the industry faces is uncertainty about when Ministry of Information Industry (MII) will issue 3G licenses. End Summary.

The Conference

12. (U) Organized by the Hong Kong based beacon Events Ltd, the July 6-7 "3G Mobile China International Summit and Exhibition" in Beijing was supported by the Chinese Government and included senior officials from MII and the Chinese Research Institute of Communication, as well Chinese business representatives from China Telecom, Unicom, Netcom, Huawei and International companies such as Motorola, Nokia, Vodafone, Qualcomm, Siemens, Alcatel and Cisco. In contrast to many other 3G conferences in China, this one focused on what 3G had to offer to the consumer rather than touting the advantages of the homegrown TD-SCDMA standard. More than 400 registered attendees representing a swath of business ventures from semiconductor companies to cell phone content providers to mobile phone software and hardware producers attended the conference. However, the organizers admitted that this year many major sponsors registered extremely late due to the uncertainty surrounding 3G licensing.

13. (SBU) Nokia's Vice-President for Marketing and Sales of Radio Networks Mr. Robin Lindahl stated that his company had had 5 years of experience in rolling out 3G around the world. In China, Nokia is focusing on the transition from 2G to 3G. He underlined the importance of having a strong 2G network available throughout China to backup any new 3G network, and the importance of the smooth transition to and evolution of that network. He went on to say that most of China's 3G networks will be built on already existing topologies and that the market winner will be decided by whichever company can launch its 3G networks the quickest. Currently, Nokia has 2G/GSM base-stations that can be

upgraded to 3G by just adding a module. Nokia plans on using the W-CDMA standard.

The Killer Application

¶4. (SBU) The success of any new tech product depends on the "Killer Application" that will make that service attractive to consumers. In China's 3G case this is as yet unclear. Asked why China even needs 3G while the existing 2G networks have yet to be fully deployed, a technical consultant with Siemens' 3G division said that for most young Chinese the cell phone will be their first and main means of accessing the Internet. He argued that cell phones are far cheaper than laptops or even home computers and combine a variety of services and applications (Internet access, music downloads, picture and video taking, personal organizer and gaming) that potentially means a whole generation of young people will be using them to manage their lives as opposed to PCs. In order for such phones to provide such services, a 3G network and the associated increase in bandwidth will be vital. Charles Yu, Vice General Manager of Unicom-Brew, said that his company was betting on music and TV services as the killer applications that will make 3G viable in China (Note: Since Qualcomm and China Unicom jointly established Unicom-BREW Telecommunication Technologies Ltd. in 2003, over 2 million users have utilized Qualcomm's BREW platform for a total of over 25 million downloads. End Note).

The Challenges

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¶5. (SBU) The key challenge for the industry remains the issuance of 3G licenses. MII remains vague about the timeframe, yet many industry analysts believe that MII will only issue licenses when TD-SCDMA is mature enough to compete with W-CDMA and CDMA2000. Xie Feibo, Deputy Director General of the MII Bureau of Radio Regulation, meanwhile pointed out that radio frequencies for 3G had actually been assigned back in 2002 and that an extra 100 Mhz of frequency had been set aside solely for 3G. Mr. Michael Stork of the German electronics company Rohde & Schwarz said that success in testing mobile networks was another challenge for new 3G terminals. Today's cell phones not only bundle more and more features, products, standards, multi-bands and wireless applications, but also utilize much more powerful chips than previous models. Mr. Stork said unless companies can provide good customer service with well priced phones that are easy to use, interest in 3G will wane swiftly.

Comment

¶6. (SBU) Many of the attendees at the conference agree that China is ready for 3G and that the convenience of features such TV, video, fast Internet access, and gaming will be the killer applications that will spark consumer interest. However, as evidenced by the last minute registrations to this conference, MII procrastination over licenses has left this multi-billion dollar industry in limbo.

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